

ABOUT THE COMPANY

Canadian National offers rail-based freight transportation services in Canada and the United States. A Crown corporation owned by the Government of Canada, CN is financially autonomous and operates on a fully competitive basis in the transportation marketplace.

CN provides a wide range of distribution services for bulk commodities, automotive and other manufactured goods, and transportation services for commuter clients.

Early in 1992, the company integrated its Canadian rail business with the Grand Trunk Corporation, creating CN North America. This move to CN was driven by competition and the need to supply customers throughout North America with efficient transportation services.

CN is involved in a number of non-transportation enterprises as well. CN Rail develops the company's property assets; Canac International offers transportation and telecommunications expertise worldwide on a consulting basis; and the CN Tower in Toronto provides telecommunications services.

Cover

In Saskatchewan, a CN train is headed to overseas markets. The number of farmers in growing and milling wheat and the past year was a big factor in the performance in 1991.

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SYSTEM HIGHLIGHTS

(\$ MILLIONS UNLESS
OTHERWISE INDICATED)

Five Year Financial and Statistical Summary

	1991	1990	1989	1988	1987
Operations					
Revenues	\$4,057.2	\$4,077.8	\$4,202.0	\$4,673.1	\$4,784.1
Operating income	\$ 146.7	\$ 164.6	\$ 397.1	\$ 545.6	\$ 479.0
Interest expense - net	\$ 208.4	\$ 207.4	\$ 199.2	\$ 300.5	\$ 371.9
Net income (loss)	\$ (14.3)	\$ 7.7	\$ 205.8	\$ 282.7	\$ 120.6
Dividend	-	\$ 1.5	\$ 41.2	\$ 56.5	\$ 24.1*
Return on average investment %	3.6	4.0	8.4	10.3	7.9
Return on average equity %	-	0.2	6.0	8.7	4.0
Capital Expenditures					
Property and equipment	\$ 239.0	\$ 327.2	\$ 371.0	\$ 386.3	\$ 482.1
Assets and Working Capital					
Current assets	\$ 972.6	\$ 989.7	\$1,082.5	\$ 945.7	\$ 965.8
Working capital deficiency	\$ 420.5	\$ 317.5	\$ 139.0	\$ 194.0	\$ 485.4
Properties	\$5,752.9	\$5,809.9	\$5,814.1	\$5,770.4	\$6,212.5
Total assets	\$6,964.7	\$7,028.3	\$7,105.4	\$6,906.0	\$7,593.6
Capital Structure					
Long-term debt (including current portion)	\$1,883.7	\$1,859.5	\$1,929.9	\$2,014.9	\$2,936.9
Equity	\$3,531.4	\$3,545.6	\$3,539.4	\$3,374.9	\$3,101.1
Debt ratio %	34.8	34.4	35.3	37.4	48.6
Traffic					
Revenue ton miles freight (billions)	99.2	94.1	96.3	104.5	101.7
Employees					
Average number for year	36,196	39,091	40,934	43,933**	50,862
Average annual wage per employee (dollars)	\$ 44,967	\$ 42,963	\$ 41,241	\$ 39,042**	\$ 36,706
Average annual cost per employee (dollars)	\$ 58,056	\$ 54,333	\$ 52,021	\$ 48,940**	\$ 46,218
Expenditures in Canada					
Purchases	\$ 806.4	\$ 846.2	\$ 875.8	\$ 908.7	\$ 895.0
Wages, salaries and fringe benefits	\$1,862.3	\$1,873.1	\$1,866.2	\$1,872.6**	\$1,969.8
Taxes	\$ 272.6	\$ 333.3	\$ 360.1	\$ 348.1	\$ 351.7

*REVERSED IN 1988

**EXCLUDING BUSINESS UNITS SOLD DURING 1988



The Honourable Jean Corbeil
Minister of Transport

Dear Mr. Minister:

On behalf of the Board of Directors, I am pleased to submit the 1991 annual report of Canadian National.

While the economic downturn and pressure on transportation prices combined to produce disappointing financial results in 1991, CN made significant strides in its drive to serve the needs of Canada's producers by delivering cost-effective, safe and innovative transportation and distribution systems.

CN has made it a priority in the 1990s to work closely with customers, government authorities, other carriers, employees and their representatives, and all stakeholders in the Canadian freight transportation network. Together, we are developing the plans and partnerships that are required if Canadian National and Canadian industry are to remain competitive in the global marketplace.

I am proud of our employees and am confident they will meet future challenges with strength and foresight. I am equally confident that a bright future lies ahead for Canadian National and for the large segment of our economy that depends on efficient rail-based transportation.

Brian R.D. Smith, Q.C.
Chairman

March 31, 1992

PRESIDENT'S REPORT

Canadian National experienced both disappointment and achievement in 1991. The corporation incurred a loss of \$14.3 million, compared with net income of \$7.7 million the previous year and \$205.8 million in 1989. The loss was CN's first since 1986 and the third since the corporation was recapitalized in 1978.

The recession in North America was the main reason for the company's deficit position. A \$55.4-million loss from U.S. rail operations under the Grand Trunk Corporation contributed significantly to the corporate deficit, as did \$94.1 million in CN Rail expenses associated with employee separations. GTC, which lost \$10.6 million in 1990, carried less traffic in 1991 largely because of the slumping automobile industry and experienced extraordinary costs stemming from employee buyouts and increased provision for remediation of an environmental problem.

Income from other continuing operations (Other Businesses) was down from 1990, \$40.2 million compared with \$107.9 million. CN Real Estate, which set the pace for CN in 1990 with net income of \$95.7 million due in part to an aggressive land sales program, earned \$30.2 million in 1991 as property markets softened.

However, railway operations in Canada successfully met the challenges of a recessionary year and produced better results than those of 1990. Although freight revenues

at \$3.2 billion were as low as 1984 levels, the railway ended the year with a loss of \$19.1 million compared with a deficit of \$100.2 million the previous year.

This improvement came about largely as a result of rigorous cost control throughout the railway. Operating expenses were \$69 million lower than plan and \$5.8 million below the level of 1990, after absorbing cost inflation, higher volume expenses, and increased employee separation expense.

A high level of grain traffic and revenue offset significant declines in other commodity sectors, particularly lumber, ores, minerals and metals, and petroleum and chemicals. The increase in grain, along with more modest increases in pulp and paper, coal, sulphur and potash, pushed total freight volume well above that of 1990.

More important, the railway in Canada achieved a number of significant breakthroughs in service and technology during 1991 that augur well for better performance in the years ahead.

Marketplace changing

CN's present and future performance is tied to a marketplace that is changing rapidly and irrevocably on a global scale. Canada's producers—CN's customers—face intensifying competition in the international marketplace. They are under extreme pressure to reduce costs, including the cost of transportation.

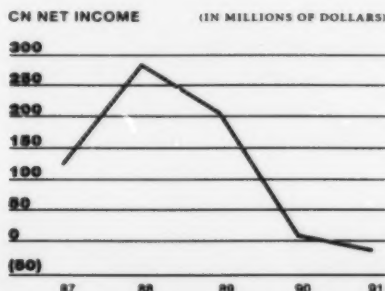
Competition in the transportation marketplace, and the global competition its customers face, is creating severe revenue compression for CN, restricting its ability to make revenue gains through volume increase or pricing action.

In response, CN is forming closer partnerships with customers to help them penetrate new markets around the world. It is applying a global perspective to its own business strategies. And it is developing innovative service offerings while working to contain costs through productivity gains.

Here in North America, free trade with the United States and economic growth have resulted in an 18-per cent increase in CN's transborder freight revenues since the mid-1980s. This business is highly competitive, with railways and trucking firms on both sides of the border vying for greater market share.

CN took a number of important steps in 1991 to strengthen its position in the continental marketplace. Most significant, the company began to integrate its railway business in Canada with that of its U.S. subsidiary, the Grand Trunk Corporation, to create a new entity, CN North America.

CN North America is an important part of CN's strategy to capitalize on the growth of trade between Canada and the United States and adjust to the shift in traffic patterns from east-west to



Meeting customer needs

north-south. It will help to streamline traffic movements and give shippers an efficient, affordable, one-stop shipping option.

CN has negotiated alliances with several U.S. railways and other carriers to extend its reach into industrial centres throughout the United States. It is investing heavily in intermodal systems to handle a greater share of the finished goods moving across the border. And it is building a new tunnel under the St. Clair River between Sarnia and Port Huron, Michigan.

Keeping costs in check

The intense competition that both CN and its customers face requires CN to maintain stringent cost control strategies. Despite a 47-per cent productivity improvement over the past five years, CN remains a relatively high-cost carrier compared with railway competitors, many of whom matched or exceeded CN's productivity growth during the same period.

CN will continue to reduce its cost base in the years ahead, bringing the size of its workforce and rail network in relation to workload more in line with the North American industry norm.

The company needs a smaller but better trained workforce. In 1991 CN reduced administrative and unionized staff levels through a voluntary separation plan and special agreements with unions, while training programs were expanded

and enriched. As well, the company continued to mechanize track and engineering work and consolidate equipment repair facilities.

Safety a top priority

No one thing is of greater concern at CN than the safety of its employees. After a banner year in 1990, we failed to improve our train accident record in 1991 and fell from first to fourth position among the safest railways in North America. Improved safety and fewer personal and train accidents in 1992 will be a major priority.

It is with great sadness and concern that I note the deaths in service of five CN employees in 1991. Three of these deaths occurred in a tragic level crossing collision just south of Edmonton.

The Board of Directors and management want to assure that everything possible is done to reduce the risk of accident and injury to our employees.

A safe, financially secure and customer-focused railway, staffed by well-trained and dedicated employees, will help to ensure that CN can compete effectively in this rapidly changing marketplace.

Seeking modal equity

CN is doing everything in its power to overcome current difficulties and prepare for a better future. But many factors are beyond the company's control. Over the past 18 months, fierce competition, recession, and fiscal and regulatory obstacles have



Ronald E. Lawless
President and Chief Executive Officer

hampered CN in securing the financial stability it needs.

Competition restricts the possibility of gains through pricing action. Recession has limited the potential for volume increases. And Canada's regulatory and fiscal regimes prevent CN from managing costs as effectively as many of its U.S. competitors in response to changing market demands.

We will continue to work to reduce the burden of low-density trackage through the sale of portions of the network to short-line opera-

tors; joint usage with other railways; and, where economics no longer justify operation, through line abandonments under the terms of the National Transportation Act.

CN and CP Rail are discussing sharing the use of their parallel lines in the Ottawa Valley. As well, CN has begun looking for a buyer for its Truro-Sydney line in Nova Scotia. The line has good profit potential for a smaller operator and under new ownership would continue to serve customers in the area. An earlier transaction, sale of the Goderich and Exeter subdivisions in Ontario, was approved by the National Transportation Agency in 1991.

The company joined other carriers, customers and involved stakeholders to address the problems of higher fuel and property tax rates than those enjoyed by U.S. carriers with whom we are in direct competition.

It will also continue to campaign for greater transport policy coordination between federal and provincial authorities to assure orderly growth and investment in Canada's rail and highway infrastructures.

A proposal by the trucking industry to test longer combination vehicles (LCVs) between major markets in Quebec and Ontario would have accentuated the imbalance. However, the two provincial governments, like the U.S. Congress some months earlier, decided against authorizing LCV tests. This decision is in line with research indicating that most

Canadians do not want LCVs on public highways and favor rail over road for environmental reasons.

Canadian railways received some acknowledgment of their current difficulties when the federal government in December offered carriers a partial rebate on fuel taxes and accelerated the tax depreciation rate on business assets. These measures, while welcome, do not go far enough to close the competitive gap between Canadian and U.S. railways.

The upcoming review of the National Transportation Act offers an opportunity for close examination of the various factors that inhibit the competitiveness of Canada's railways and, by extension, the competitiveness of Canadian producers.

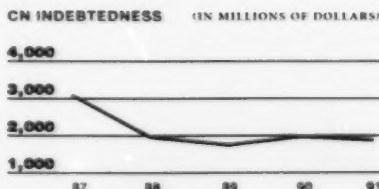
Looking to the future

The message of 1991 is that the transportation marketplace is changing rapidly, and that CN's success depends on how well it understands and meets customers' needs. Competitiveness must be the goal, globalism the perspective, and cooperation a guiding principle along the way.

In 1991 I had the personal good fortune to observe the 50th anniversary of the start of my career with Canadian National. At no time during this entire period have I seen greater changes in our industry than in the past five years. Nor have the challenges ever been as great.



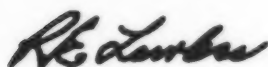
Yvon H. Masse, left, Senior Vice-President and Chief Financial Officer, with John H.D. Sturgess, Senior Vice-President and Chief Operating Officer



At the same time, I take a great deal of satisfaction in our concentration on customer service, on improved productivity, and on creative solutions to problems by the men and women of CN. They are building well on the work of those who came before them. I believe the future of our company is in very good hands.

Their spirit of entrepreneurship, coupled with a realistic view of the opportunities in the expanding global marketplace, will shape CN's future in a very positive way. It has been a distinct honor for me to have served CN during this dynamic and exciting period of our history.

Even in today's uncertain business climate, we can be confident in the future. Confident that CN and its people will be able to manage change with stamina and creativity. And confident in the ability of Canadian National to meet the transportation and distribution needs of Canada's producers by being the very best.



Ronald E. Lawless

THE MISSION

CN's mission is to meet customers' transportation and distribution needs by being the best at moving their goods on time, safely, and damage-free.

Close to customers

CN can meet customers' needs effectively only if it is intimately involved in their businesses. The drive to become closer to customers originated in 1987 with the creation of eight commodity-based marketing business units. A ninth unit was established in 1991 to serve rail passenger clients that operate over CN lines.

In 1991 CN conducted a comprehensive survey of customers to evaluate its performance from their vantage point. Findings indicate that customers like CN's new direction, but want to see more of the commitment in action.

First in service

Becoming first in service means becoming more reliable, more responsive, and more innovative in service design.



At Transcona Shops in Winnipeg, Raj Manuel helps keep rail equipment in peak condition.

CN people are concentrating on meeting transit time targets consistently, providing the right equipment precisely when required, and expanding shipment tracing systems.

First in quality

As Canadian producers come to grips with competition at home and abroad, the quality concept is taking hold as an indispensable strategy.

CN's own Quality process promotes teamwork among employees to solve problems and improve work processes.

First in safety

Safe operations are cost-efficient operations. They contribute to employee well-being and to the security of the people and communities touched by railway activity. And they allow CN to deliver the damage-free service shippers demand.

Although CN had the best record of any North American railway in terms of train and yard accidents the previous year, in 1991 it slipped to fourth place in that category. Consequently, the company is intensifying its campaign to become the safest railway, consistently.

Environmentally responsible

Railways are the safest and most environmentally benign of all land-based transportation modes. Ton for ton, trains are at least three times as energy-efficient as trucks and emit less than a third as much contaminant into the atmosphere.

CN is enhancing these advantages by promoting environmental responsibility throughout the company.

Cost-competitive and financially sound

To compete successfully, CN must keep its costs in line with those of other carriers while maintaining the company's financial integrity.

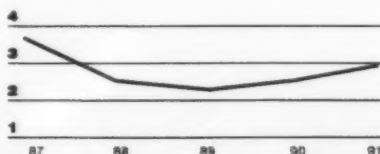
CN is managing its investments with care and foresight to avoid incurring the punishing level of indebtedness that narrowed management's options in the mid-1980s. Capital investment decisions must provide CN with a commercial rate of return on its total investments.

A challenging and fulfilling place to work

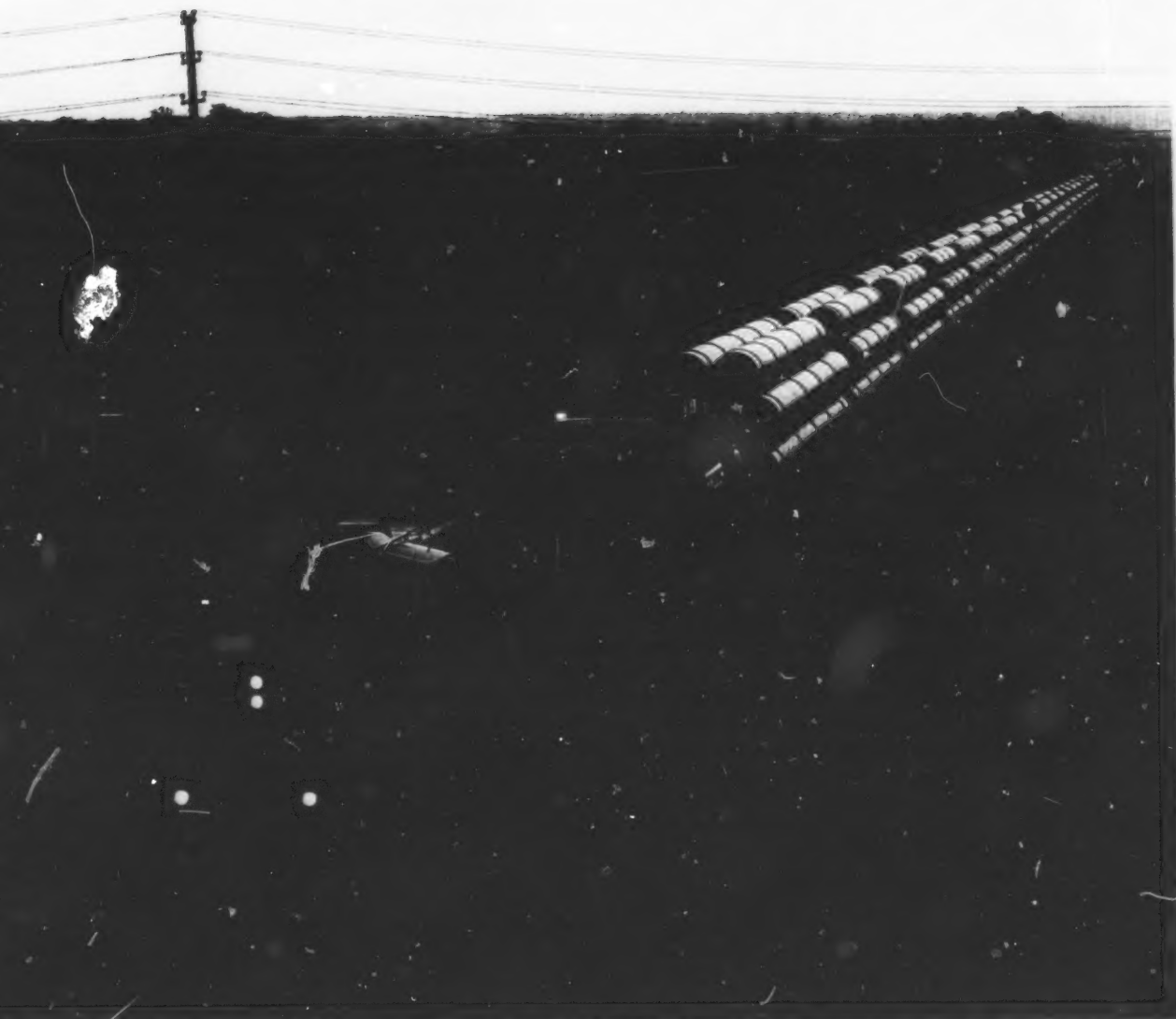
Despite a difficult business climate, CN's employees have shown their willingness to adapt to change and adopt customer-first attitudes.

Their skills and positive attitudes are vital to the company's success. CN fosters these qualities by investing heavily in training, development and communications programs that will equip its people to meet the challenges of the 1990s.

ACCIDENTS
PER MILLION
TRAIN MILES



Setting sights on the future



Coated steel pipe produced by Stalpipe in Welland, Ontario, was used to expand TransCanada's natural gas pipeline in Western Canada. A new loading configuration developed by Stalpipe and CN allows more pipe to be carried on each railcar, improving the productivity of the car fleet.

BULK BUSINESS

Some 75 per cent of the freight CN handles originates with producers of the bulk commodities that have traditionally been the source of Canada's economic strength.

All of CN's bulk commodity customers are seeking a competitive edge; all are concerned with the cost of doing business, including the cost of distribution.

CN people know that full customer satisfaction begins with complete understanding of customers' needs. CN is working closely with bulk commodity shippers to supply more efficient and reliable delivery of their products to markets in Canada and around the world.

Enhancements in train service now result in a far larger proportion of freight trains running at improved reliability. Typical improvements include a major reduction in elapsed time for the movement of lumber from British Columbia to Vermont. And the cycle time required to move unit trains carrying molten sulphur from Edmonton to South Carolina has been reduced by more than half.

Currently, the railway is testing new modified rail cars that will permit an increase in the tonnage capacity of its trains.

Technology enhances service

CN continued in 1991 to develop and adapt advanced technology that will increase productivity and service quality. Improvements in train monitoring and control, communications

with customers, operating practices, and environmental performance came about as a result of research and investment in a variety of new systems and techniques.

In March 1991 CN's \$7-million Operations Management Centre in Montreal went on-line as the industry's most advanced facility for planning and coordinating train movements.

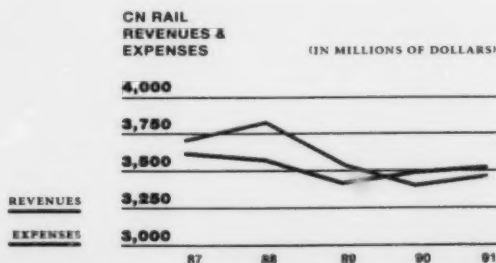


Laura Bennett oversees complex freight equipment moves at CN terminal in Brampton, Ont.

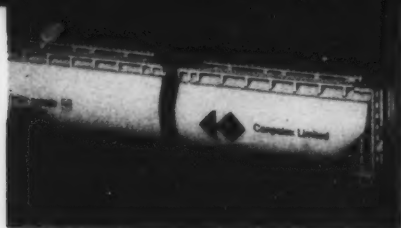
On the environmental front, CN is investing \$7 million to install wheel flange lubricators on 800 high-horsepower locomotives. These devices will cut fuel consumption and costs by some \$15 million annually and reduce engine emissions.

CN launched a new business venture in 1991 when it transformed its equipment repair shops in Montreal into a fully commercial enterprise. Ateliers de Montréal / Montreal Facility is currently working on a variety of projects, including a \$60-million contract to renovate 336 Metro cars for the Montreal Urban Community Transit Commission, passenger car renovation for VIA Rail, and locomotive rebuilding for several U.S. railways.

Funds were dedicated to upgrading and integrating various computer systems, including the Yard Inventory System which monitors the location of freight cars in rail yards across Canada and at customer sidings.



Working for the customer's customer



A CN trainload of Saskatchewan potash heads for international markets in cars used by Compex, the potash industry's marketing arm. Inset shows proposed new design for articulated cars, which would greatly increase the capacity of potash trains.

INTERMODAL BUSINESS

A rapidly evolving marketplace calls for radically new concepts in distribution.

Rail-based distribution has significant energy efficiency and other environmental advantages over trucking.

Intermodal systems, combining the cost and environmental advantages of long-haul rail with the flexibility of local pick-up and delivery, are a vital part of CN's drive to win greater market share. In the current five-year period, CN is spending \$425 million to expand yards, buy new equipment, and increase track clearances needed for double-stack container trains and intermodal operations.

Double-stacking of containers was extended in 1991 when CN began to convert its domestic intermodal fleet from trailers to containers and combine domestic and import/export containers on the same trains. Together, these moves create the volumes required to generate the cost savings offered by double-stack container trains.

CN launched Canada's first double-stack train service for domestic traffic with inauguration of a Moncton-Montreal-Toronto link in June. Later, CN began offering double-stack service for import/export traffic from the Port of Halifax.

The railway is purchasing 80 five-pak cars, each capable of carrying 10 containers double-stacked, from Trenton Works at Trenton, N.S.

Another 50 five-paks for domestic intermodal service are under construction at CN's Transcona Shops in Winnipeg, while CN employees at Moncton began the manufacture of 100 domestic containers.

Speed and reliability were the major selling points when CN launched a daily "Sprint" train service between Montreal and Toronto in August. A union agreement permitting the introduction of two-person train crews paved the way for their introduction.

CN's new Vancouver terminal is nearing completion, and studies continue on the feasibility of a new domestic container terminal in the Halifax area. Over the next two years, CN will spend \$15 million on doubling the capacity of its largest intermodal terminal at Brampton, Ontario.

Keeping Canada's ports competitive

During the year, CN launched new initiatives and worked closely with port authorities, port users, and government officials to improve the competitiveness of Canadian ports.

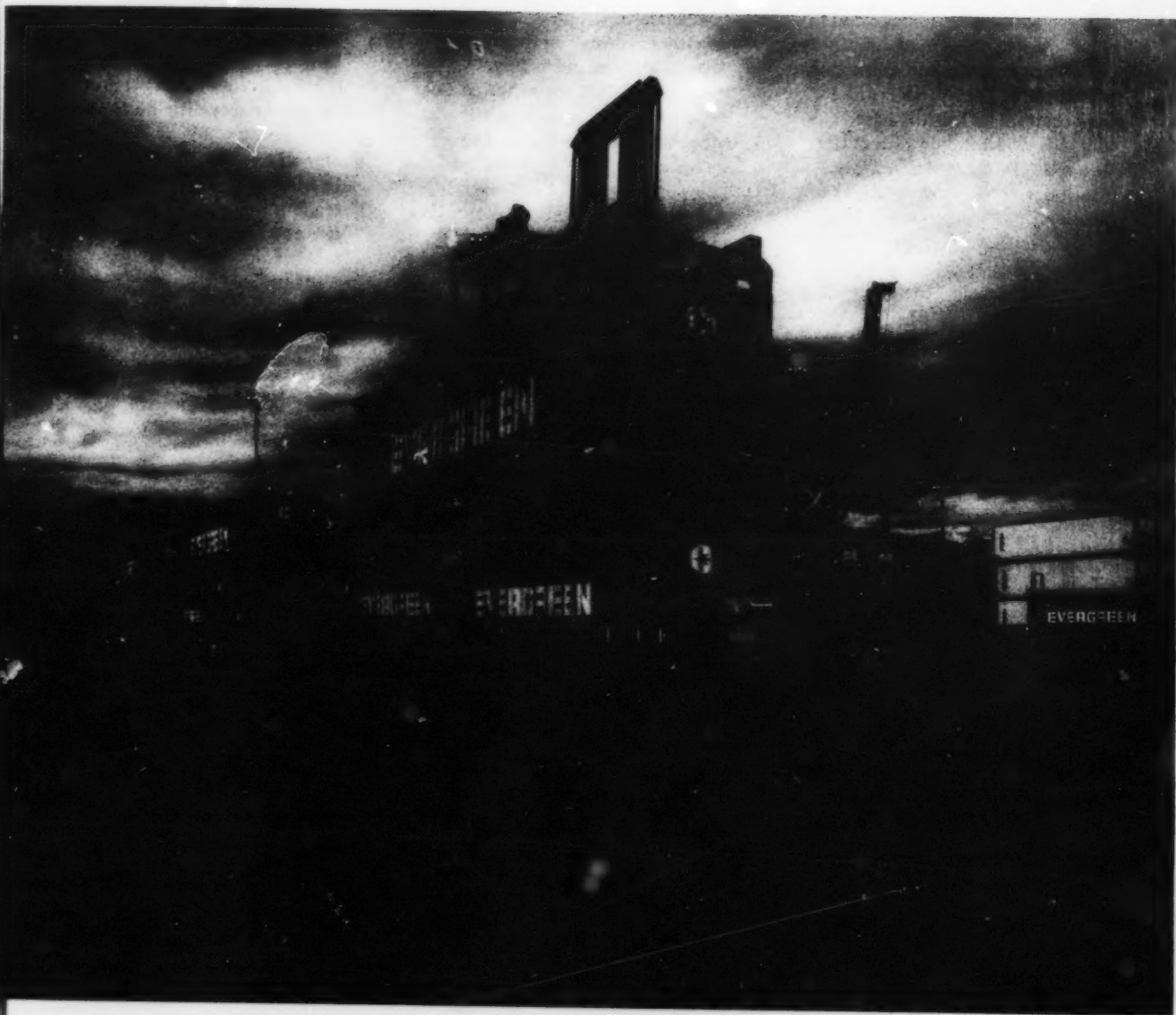
When surplus vessel capacity on the North Atlantic led to rationalization of shipping routes and the loss of an important segment of business at the Port of Halifax, CN and the Government of Nova Scotia negotiated an equipment funding package that allows CN to operate its new double-stack container train service out of Halifax.



Andrea MacDonald verifies safe loading of containers at Halterm intermodal terminal in Halifax, N.S.

In May, CN participated in Vancouver Roundtable discussions and later helped stage an international transportation forum that highlighted the need to remedy taxation inequities hampering West Coast ports in relation to U.S. competitors.

New ideas for a changing marketplace



A double-stack container train is loaded with Evergreen Lines containers before leaving the Port of Vancouver for markets in Toronto and Montreal. CN launched this weekly dedicated train service for Evergreen in 1991.

CN NORTH AMERICA

Late in 1991, CN decided to integrate Canadian railway operations and marketing with those of the Grand Trunk Corporation, its Detroit-based U.S. subsidiary. The integration of CN Rail and GTC created a new organization, CN North America, as of January 1, 1992.

The decision reflects the fact that the domestic freight transportation marketplace has become continental in scope. It reflects the need to develop business strategies that allow CN to reach customers and their markets throughout North America.

CN is investing \$155 million in construction of a new tunnel under the St. Clair River between Sarnia, Ontario, and Port Huron, Michigan. When it opens in 1994, the tunnel will streamline the flow of trans-border traffic and accommodate both double-stack container trains and multi-level automobile carriers.

Seamless transportation

In 1991 CN negotiated a number of alliances with U.S. railways to provide more efficient, cost-effective service over a broader territory throughout North America. These alliances go hand in hand with the creation of CN North America to provide the trouble-free "seamless transportation" shippers demand.

An alliance with Burlington Northern involves cooperation on

boxcar traffic originating anywhere on either railway's network and coordination of marketing, routing, and data interchange. CN negotiated similar agreements with other U.S. railways during 1991, including Norfolk Southern and Union Pacific.

Another thrust into U.S. markets was the introduction of a new distribution service for California packaged and canned food products, in partnership with several other railways and warehousing firms. These new arrangements expand CN's marketing reach into the western and southeastern United States as far as the primary gateways into Mexico.

General Motors' Quality carrier

CN's relationship with General Motors exemplifies the importance of the continental thrust and the need for top-quality distribution services.

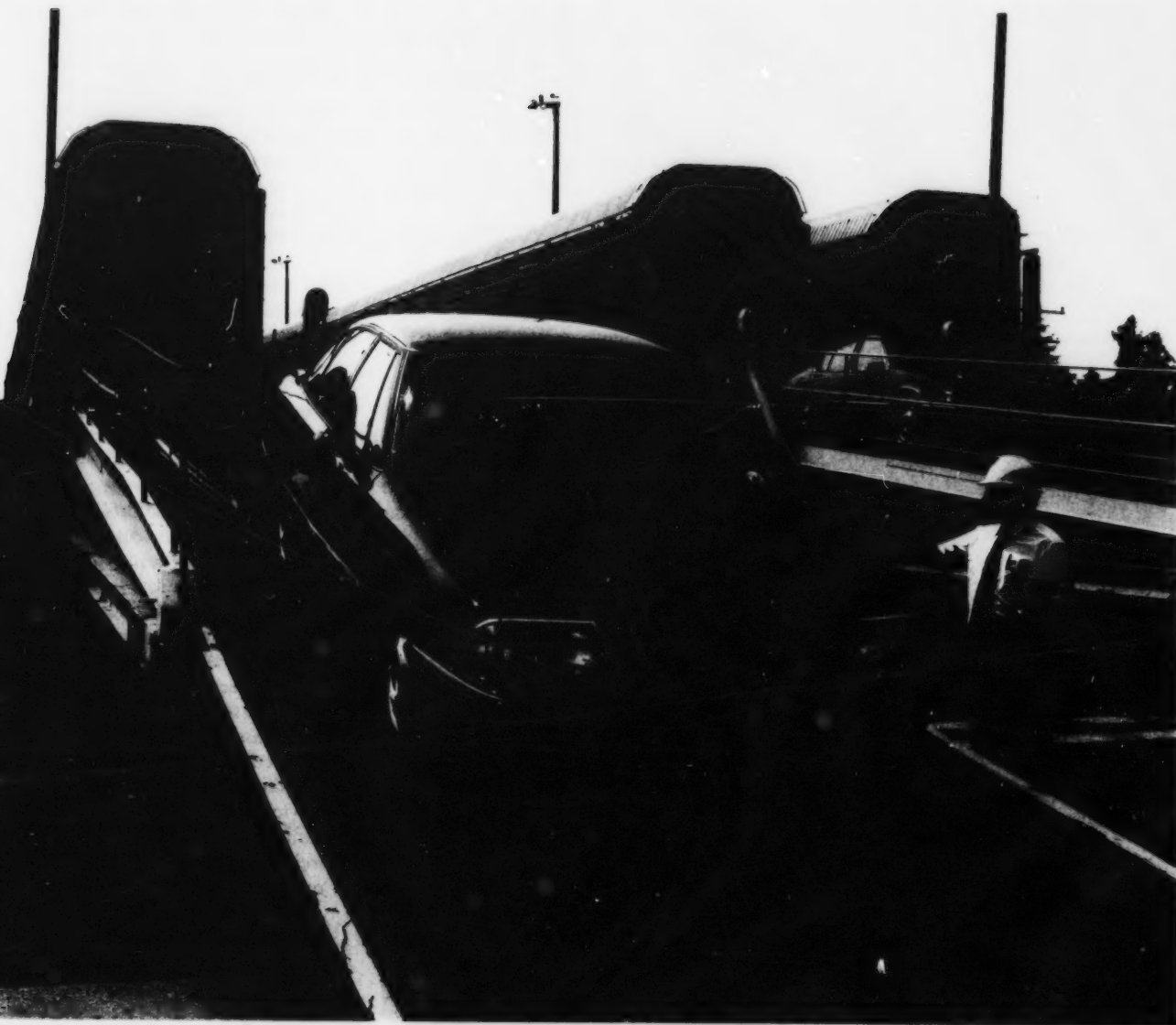
As competition stiffens, GM is demanding more from its suppliers. In May, a GM quality assessment team evaluated CN's performance in five areas—quality, cost, delivery, technology, and leadership.

The process told GM that CN has the tools in place to excel as a transportation supplier. That recognition resulted in GM selecting CN as the first North American carrier to receive its Mark of Excellence Award. Commitment to quality led to a substantial increase in GM business for CN, including a contract for the movement of new Saturn automobiles from Buffalo, New York, to Oshawa, Ontario.



In Port Huron, Michigan, Bill Carpenter keeps wheels turning smoothly for CN North America.

The continental carrier



Thumbs up for quality service - New General Motors cars roll off CN's enclosed tri-level automobile carriers, heading for dealers' showrooms.

CN PEOPLE

During a period of rapid change and uncertainty in the marketplace, CN will continue to depend on its energetic and innovative people to pull the company through to a period of more stable earnings. Pressured by the competition and the need to provide customers with quality service at the lowest possible cost, it will be dedication to superior performance, safe operations, reliable service, and innovation that will secure the company's success.

Throughout Canada and within U.S. operations, there is a clear understanding of the need to provide service of the highest quality if CN is to retain customers and attract new business. Imbued with a desire to instil total quality in everything they do, CN's people are working closely with customers to give them tailored transportation packages and improve the reliability of siding-to-siding and dock-to-dock service.

The total quality process is also beginning to produce measurable improvements in daily work activities, thanks to the energy and creativity of CN people.

A Leadership program for senior officers, now in its third year, has paved the way to closer links with customers. Dozens of multi-functional teams are tackling such issues as truck competition, short-line sales, waste reduction, and labor-management relations.

Through their participation in some 160 quality action teams,

employees at all levels are becoming more conscious of the importance of customer satisfaction.

CN expanded and reorganized its skills training programs in 1991, bringing them more in line with customer satisfaction goals. A new Operations Training Centre in Edmonton began offering courses in July.

CN spends more than \$45 million on training annually, at an average rate of one full week per employee.

Employee well-being is essential to quality performance. In 1991 CN stepped up occupational health and safety activities and initiated back care, stress management, and industrial hygiene programs.

A diverse workforce

Employment equity is fundamental to CN's human resource policies and practices. Despite the need to reduce the size of the workforce, the company is making strenuous efforts to increase the representation of women, visible minorities, native

people, and people with disabilities in its workforce and improve their opportunities for advancement.

In 1991 CN received an award from the Montreal organization FRAPPE (Women for Access to Political and Economic Power) in recognition of the progress it has made in promoting employment equity for women.

During the year, CN awarded \$600 scholarships to 71 women learning non-traditional skills and five \$2,000 university scholarships to aboriginal students.

New spirit of cooperation

A necessary ingredient to get the company successfully through the current period of change and instability is improved relations between labor and management. Both groups share a common desire for stable employment through the achievement of a satisfied customer base. There were significant advances in this area in 1991.

An agreement with the United Transportation Union to introduce two-person train crews in the highly competitive Montreal-Toronto corridor allows CN to improve customer service while reducing costs. Greater competitiveness will attract more freight off the highways and onto the railway.

Early in 1992, a similar agreement was signed with the UTU to cover train operations in Western Canada and is pending ratification.



Locomotive headlights get safety adjustment from Leo Cormier in Moncton, N.B.

Quality at work

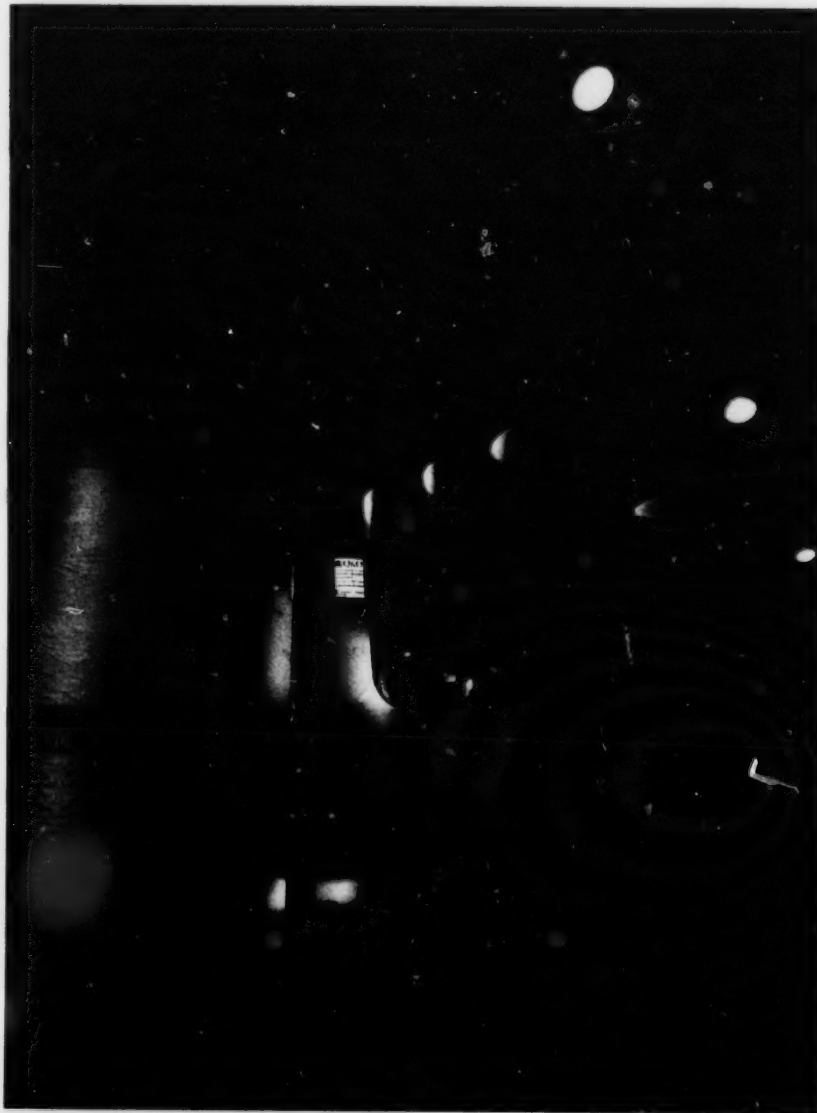
A labor-management forum designed to improve working relations across a broad spectrum of common business issues also took root in 1991. This too is a customer-focused endeavor and typifies the new approaches and fundamental culture change that must occur if the railway and its people are to enjoy long-term success and security of employment.

Meeting the competition

Despite significant workforce adjustments in recent years, CN remains overstaffed compared with other major railways.

A voluntary separation plan aimed at eliminating 1,300 administrative positions over the 18 months between July 1990 and December 31, 1991, was successfully carried out. The plan, involving enhancement to benefits for early retirement and resignation, was carefully managed to avoid any impact on customer service or safety.

Following an arbitrator's decision, about 500 trainmen decided to leave CN in 1991 after the introduction of reduced-crew trains made their positions redundant.



At Quebec and Ontario Paper Company Ltd., in Bale-Comeau, an operator prepares to move rolls of products onto CN's new PaperTrain. A labor agreement on train crew size paved the way for introduction of this convenient service to Toronto for Quebec North Shore paper makers.

OTHER BUSINESSES

Canadian National's other businesses support its vital transportation activities and contribute to the overall financial viability of the corporation.

In 1991 these businesses contributed important pre-tax income to CN—\$ 40.2 million, compared with \$107.9 million the previous year.

CN Real Estate generated most of CN's non-rail income. Earnings were \$30.2 million, down from \$95.7 million in 1990 mainly because the economic slowdown reduced revenues from land sales while expenses were higher.

In Edmonton, work is continuing on land development and servicing for the Dunvegan residential community. Phase One of the Oliver Square shopping centre, on the site of the former rail yard in downtown Edmonton, was completed in 1991. Other plans for the site include the Grant McEwan Community College, now under construction, and a residential complex. The redevelopment of Vancouver's Custom House is moving through the approval stage. A high-quality office building there will commemorate the architectural heritage of the existing Custom House structure.

Despite weakening economic conditions around the globe, **Canac International**, CN's transportation and telecommunications consulting unit, had a busy year in

1991, although pre-tax income of \$3.4 million was down \$0.9 million from 1990.

Development work began on a freight car tracing system for railways of the People's Republic of China. Canac also won a \$4-million contract to modernize Bolivian National Railways.

The North Atlantic Treaty Organization (NATO) selected Canac Telecom in 1991 as prime contractor for installation of an information system at Supreme Headquarters Allied Powers Europe near Mons, Belgium. This contract is valued at \$4.7 million.

Canac Telecom began work on a new telephone system for the Philippines, working in partnership with Saskatchewan Telephone.

The recession cut into revenue from visitors and sale of food and beverages at the **CN Tower** in Toronto. Pre-tax income declined by \$1.0 million from 1990 to \$5.0 million in 1991. However, the Tower continues to earn a good return from its telecommunications facilities.

The Government of Canada has indicated its intention to privatize **CN Exploration** as a means of helping reduce the federal deficit. This plan was announced in the budget tabled by the Minister of Finance on February 26, 1991.

Volatility in oil prices affected CN Exploration results in 1991. Petroleum production was up, but with prices generally lower than

the level of 1990 and cost of production higher, pre-tax income of \$3.7 million was well below the \$8.5 million earned the previous year. CN Exploration's results have been reported as discontinued operations.

Profits from diversity



**New life for railway lands in Edmonton—
imaginative architectural features distinguish
Phase One of CN Real Estate's Oliver Square
shopping centre, transforming a landscape once
dominated by a downtown rail yard.**

PERFORMANCE AGAINST PLAN

Canadian National has made significant progress toward goals set within the company's Vision statement. Performance against plan for 1991 is summarized here.

Objective

Progress in 1991

Close to Customers

Achieve superiority in understanding and delivering the service customers value.

2.7% revenue growth for CN Rail, to \$3.49 billion. Increased freight volumes by 5.9% while revenue per unit continued to fall, in intensely competitive marketplace.

Comprehensive survey of how customers perceive CN's performance.

First in Service

Make continuous improvement in service delivery performance.

Began integration of Grand Trunk and CN Rail into CN North America, to provide seamless service and marketing.

Launched Canada's first double-stack domestic container service.

Initiated other new train services tailored for customers in automotive and paper industries.

First in Quality

Provide a quality workplace. Empower CN's people to apply their talents to transform CN into a more market-focused, responsive and efficient organization.

Participation of employees at all levels, and customers, in recommending changes in how work is done, through Quality Action Teams involving over a thousand individuals.

A Challenging and Fulfilling Place to Work

Promote flexibility, innovation, and commitment.

Major emphasis placed on training and management development programs.

First in Safety

Become and remain the safest railway in North America.

CN Rail ranked fourth best in frequency of train and yard accidents in North America (to October) and reduced the frequency of personal injuries by 15%.

Environmentally Responsible

Make valuable contributions toward solving environmental problems.

Aided policymakers through participation in federal/provincial environmental roundtables and new environmental advisory council of Transportation Association of Canada.

Turning the Vision into reality

Objective	Progress in 1991
Cost-competitive and Financially Sound Attain cost levels comparable to other major North American railways	7% decline in workforce for CN Rail and 11% decline for Grand Trunk, exceeding targeted reductions. Breakthrough agreement to introduce two-person crews on many trains. Freight traffic density on Canadian network up by 6%. Secured regulatory approval for sale of Goderich-Exeter short line and offered Sydney-Truro line for sale.
Improve CN Rail pre-tax income by \$120 million over 1990.	Improved pre-tax income by \$81 million. Operating ratio (operating expenses as % of revenues) reduced by 2.7 points, despite inflationary pressures and increased traffic.
Improve GTC pre-tax income by \$20 million over 1990.	Worsened by \$45 million, due to dramatic shortfall in automotive business and several non-recurring expenses.
Maximize value to CN of all assets.	CN Real Estate completed TD Centre development in Winnipeg and Oliver Square – Phase One in Edmonton. Montreal railway equipment shop transformed into profit centre.
Improve return on investment.	Despite better results for CN Rail, CN's overall return on investment fell by 0.4% during a weak economy.
Provide dividend of \$41.2 million.	Dividend of \$42.7 million to be paid by March 31, 1992, bringing total dividends paid from 1979 to \$336 million.
Manage cash flow so that net consumption of cash would not be greater than \$23 million, resulting in target system indebtedness of \$1.996 billion.	Reduced system indebtedness by \$61 million to \$1.913 billion: a significant accomplishment in a difficult economic environment.

DIRECTORS

CANADIAN NATIONAL RAILWAYS AS AT DECEMBER 31, 1991

B.R.D. Smith, Q.C.
Chairman
Victoria, British Columbia ⁽²⁾

A.J. Bentley
Saskatoon, Saskatchewan ⁽¹⁾⁽⁴⁾

J. Brouwer
West Vancouver, British Columbia ⁽²⁾⁽⁴⁾

G.T.H. Cooper, Q.C.
Halifax, Nova Scotia ⁽¹⁾⁽³⁾

G. Coulombe
Montreal, Quebec ⁽¹⁾⁽⁴⁾⁽⁵⁾

E. Demkiw
Vegreville, Alberta ⁽²⁾⁽⁴⁾

R.E. Lawless
President and Chief Executive Officer
Beaconsfield, Quebec ⁽²⁾⁽³⁾

E.A. Mascoll
Toronto, Ontario ⁽²⁾⁽⁴⁾

M. Mayer
Montreal, Quebec ⁽³⁾⁽⁴⁾⁽⁵⁾

S. Murray
Appointed January 9, 1991
Winnipeg, Manitoba ⁽³⁾

Y. Poitras
St. Quentin, New Brunswick ⁽¹⁾⁽³⁾

F.J. Ryan
St. John's, Newfoundland ⁽¹⁾⁽⁴⁾⁽⁵⁾

⁽¹⁾ MEMBER OF THE AUDIT COMMITTEE

⁽²⁾ MEMBER OF THE COMPENSATION
COMMITTEE

⁽³⁾ MEMBER OF THE INVESTMENT COMMITTEE

⁽⁴⁾ MEMBER OF THE REAL ESTATE COMMITTEE

⁽⁵⁾ MEMBER OF THE SOCIAL POLICY COMMITTEE



Standing:

M. Mayer, E. Demkiw, Y. Poitras, S. Murray,
F.J. Ryan, G. Coulombe, J. Brouwer,
E.A. Mascoll

Seated:

A.J. Bentley, B.R.D. Smith, R.E. Lawless,
G.T.H. Cooper

OFFICERS

CANADIAN NATIONAL RAILWAY COMPANY AS AT DECEMBER 31, 1991

B.R.D. Smith, Q.C.
Chairman

R.E. Lawless
*President and Chief
Executive Officer*

M.A. Blackwell
*Vice-President
Atlantic Region*

R. Boudreau, Q.C.
Vice-President - Law

F.D. Campbell
*Vice-President
Prairie Region*

T. Cedraschi
*President and Chief
Executive Officer
CN Investment Division*

G.C. Church
Treasurer

A.E. Deegan
*Vice-President
Great Lakes Region*

B.E. Ducey
*Vice-President
Public Affairs and Advertising*

A.J. Gillies
*Vice-President
Intermodal*

J.D. Guppy
*Senior Vice-President
Marketing*

B.E. Horsman
*Vice-President
Strategic Issues*

J.P. Kelsall
*Senior Vice-President
Operations*

J.R. Lagacé
*Vice-President
St. Lawrence Region*

J.P. Laroche
*Vice-President
Quality*

I.G. MacDonald
*Vice-President
Financial Planning*

D.P. MacKinnon
*Vice-President and
Secretary of the Company*

G. Maroulis
*Vice-President
Internal Audit*

Y.H. Masse
*Senior Vice-President and
Chief Financial Officer*

R.D. McGrath
*Vice-President
Information Systems and
Accounting*

R.K. Morris
Corporate Comptroller

H.F. Muchnick
*President
CN Tower Limited*

D.G. Parsons
*Vice-President
Purchases and Materials*

L. Piché
*Vice-President
Human Resources*

A.R. Pozniak
*President and Chief
Executive Officer
Canac International Inc.*

J.H.D. Sturgess
*Senior Vice-President and
Chief Operating Officer*

H.D. Tipple
*President
CN Real Estate*

D.E. Todd
*Vice-President
Government Affairs*

W.H. Waddell
*President
CN Exploration Inc.*

R.A. Walker
*Senior Vice-President
Western Canada*

COMPANIES

AS AT DECEMBER 31, 1991

Companies included in the Consolidated Financial Statements of the Canadian National Railway System

CONSOLIDATED COMPANIES

Autoport Limited

Canac International Inc.

Canac International Ltd.

The Canada and Gulf Terminal Railway Company

Canadian National Express Company

Canadian National Railway Company

The Canadian National Railways Securities Trust

Canadian National Steamship Company, Limited

Canadian National Telegraph Company

Canadian National Transfer Company Limited

Canadian National Transportation, Limited

The Canadian Northern Quebec Railway Company

Canat Limited

Canaven Limited

Central Vermont Railway, Inc.

Chapman Transport Limited

CN Exploration Inc.

C.N. (France) S.A.

CNM Inc.

CN Tower Limited

CN Transactions Inc.

Domestic Four Leasing Corporation

Domestic Three Leasing Corporation

Duluth, Winnipeg and Pacific Railway Company

E I D Electronic Identification Systems Ltd.

Empire Freightways Limited

Grand Trunk Corporation

Grand Trunk Land Development Corporation

Grand Trunk Technologies, Inc.

Grand Trunk Western Railroad Company

The Great North Western Telegraph Company of Canada

The Minnesota and Manitoba Railroad Company

The Minnesota and Ontario Bridge Company

Mount Royal Tunnel and Terminal Company, Limited

The Northern Consolidated Holding Company Limited

173335 Canada Inc.

The Quebec and Lake St. John Railway Company

Royal Transportation Limited

JOINTLY-OPERATED AND OTHER COMPANIES IN WHICH THE SYSTEM HAS INVESTMENTS

The Belt Railway Company of Chicago

The Canada Southern Railway Company

Canaprev Inc.

Compagnie de gestion de Matane Inc.

Corporation de Chauffage Urbain de Montréal

Detroit River Tunnel Company

Dome Consortium Investments Inc.

Domestic Two Leasing Corporation

Eurocanadian Shipholdings Limited

Fort Point Holdings Ltd.

Halterm Limited

Innoterminal Inc.*

Lakespan Marine Inc.

Portage & Main Development Ltd.

Railroad Association Insurance, Ltd.

Seabase Limited

Shawinigan Terminal Railway Company

Société du port ferroviaire de Baie Comeau-Hauterive

Telesat Canada

The Toronto Terminals Railway Company Limited

TTX Company (formerly Trailer Train Company)

* Acquired December 18, 1991

In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the System.

FINANCIAL REVIEW & CONSOLIDATED FINANCIAL STATEMENTS

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THE CN PENSION PLAN AND THE CN 1935 PENSION PLAN

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RESULTS OF OPERATIONS

In 1991, the System incurred a net loss of \$14.3 million, compared with net income of \$7.7 million in 1990 and \$205.8 million in 1989. Recessionary conditions continued throughout the year, and the 1991 results continue to reflect the low level of business activity. Although CN Rail revenues improved because of a \$154.0 million increase in revenues from grain traffic, the division still incurred a loss of \$19.1 million compared to a loss of \$100.2 million in 1990. Decreases in revenues and additional non-recurring expenses contributed to a loss of \$55.4 million in Grand Trunk Corporation compared with its loss of \$10.6 million for 1990. Reduced business activity in CN Real Estate resulted in a reduction of income from \$95.7 million in 1990 to \$30.2 million in 1991.

The 1990 decline in income reflected depressed economic conditions and reduced business activity in Canada and the United States. The rail sector was particularly hard hit, with rail operations incurring a loss of \$110.7 million in 1990 compared with an income of \$138.7 million in 1989. The rail loss was offset by income of \$116.4 million from non-rail sources, mainly CN Real Estate, which had higher profits on land sales, and CN Exploration which benefited from oil price increases.

The results for each division, which are discussed below, include the assignment of interest expense. This expense aggregated \$208.4 million for the System in 1991, \$207.4 million in 1990 and \$199.2 million in 1989.

CN RAIL

CN Rail had a loss of \$19.1 million in 1991, compared with a loss of \$100.2 million in 1990 and income of \$125.0 million in 1989. Increased grain traffic was the main factor in the 1991 improvement while lower freight revenue was mainly responsible for the 1990 reduction.

Railway operating revenues totalled \$3,489.4 million in 1991, up \$91.3 million from 1990 but down \$38.9 million from 1989. Freight revenues were \$113.3 million higher than last year, mainly because of increases in traffic volumes. Revenue gains were recorded in export and domestic grain, and in coal, sulphur and potash. All other commodity groups had lower revenues in 1991. Revenues from Via Rail Canada decreased by \$19.7 million mainly because of a 1990 settlement pertaining to prior years' operations. Revenues from all other sources declined by \$0.6 million.

Freight revenue in 1990 was down \$121.3 million from the 1989 level mainly because of lower traffic

volumes. Revenue gains were recorded in grain, sulphur, potash, petroleum and chemicals, but were more than offset by lower revenues in all other commodity groups mainly because of the reduced level of construction and other business activity in the recession. Despite an increase of \$15.9 million resulting from the settlement of disputes relating to the prior operating agreement, revenues from the contract with VIA declined by \$10.1 million due to lower workloads brought about by a cutback in service at VIA. Revenues from all other sources increased by \$1.2 million.

Expenses in 1991 were \$3,508.5 million, \$10.2 million higher than in 1990, and \$105.2 million higher than in 1989. Despite a 5% workload increase the 1991 savings occurred in operations expenses, mainly from cost-saving productivity initiatives in maintenance and transportation. More than offsetting were increases in other expenses, mainly employee separation costs which included the Company's enhanced separation benefits package. Contributing to the 1990 increases were separation costs incurred as a result of an arbitration award, a rise in fuel prices, downsizing costs, higher equipment leasing expenses and increases in taxes and interest.

GRAND TRUNK CORPORATION

Grand Trunk Corporation incurred a loss of \$55.4 million in 1991 compared with a loss of \$10.6 million in 1990 and income of \$13.7 million in 1989. Much of the worsening in 1991 was due to a provision for an environmental claim, costs related to employee reductions and other non-recurring expenses which totalled \$36.0 million in 1991 compared with similar expenses of \$7.5 million in 1990. The main factor in the 1990 loss was lower traffic volume.

Revenues totalled \$376.5 million, down \$54.6 million from 1990 and \$84.8 million from 1989. The revenue declines in both years reflected lower traffic volumes associated with recessionary conditions, particularly in the automotive and construction markets.

Expenses amounted to \$432.0 million in 1991, \$441.7 million in 1990, and \$447.6 million in 1989. In 1991, the non-recurring items mentioned above were enough to assure that any fall in expenses due to lower traffic volume would not be in proportion to the reduction in revenue. The 1990 expense decrease was due mainly to volume-related savings moderated to some extent by inflation and severance programs costs.

ENTERPRISES GROUP

CN Real Estate

Income from CN Real Estate amounted to \$30.2 million in 1991, a decrease of \$65.5 million from 1990 and \$62.8 million from 1989. The 1991 fall in income was due to lower profits from reduced land sales and decreases in the share of joint venture income, which reflected the depressed state of the real estate market. Increased profits on land sales and higher earnings from property operations were mainly responsible for the 1990 increase.

Other

Other Enterprises had income of \$10.1 million in 1991, down \$2.2 million from 1990 and \$7.2 million from 1989. The 1991 decrease was attributable to lower income from CN Tower, CN Communications and CN France. The 1990 reduction was due to lower income from Canac International Inc., CN France and CN Tower partly offset by improved results from CN Communications.

INCOME TAXES

There was a net recovery of \$3.1 million in 1991, compared with a net recovery of \$4.2 million in 1990. Net income taxes in 1989 were reduced by the amount of \$39.2 million through the utilization of the remainder of the Company's tax benefits pertaining to prior years' losses, and resulted in a charge against income of \$48.7 million. See Note 11 of Notes to Consolidated Financial Statements.

DISCONTINUED OPERATIONS

In the Budget tabled in the House of Commons on February 26, 1991 the Minister of Finance of Canada announced the Government's intention to privatize CN Exploration. He further indicated that proceeds from the sale of this business unit would be remitted to the Government to reduce the deficit. CN Exploration's results have been reported as discontinued operations. See Note 2 a) of Notes to Consolidated Financial Statements.

In 1991 CN Exploration had income of \$3.7 million compared with income of \$8.5 million in 1990 and \$7.8 million in 1989. Despite greater production in 1991, revenues were below the 1990 level, mainly because of higher oil prices in 1990 resulting from the Gulf crisis. The 1990 increase was also due to higher crude oil prices and increased sales volumes.

In addition, 1991 income from discontinued operations includes amounts totalling \$23.8 million less income taxes of \$9.6 million representing reversals of portions of estimated disposition costs of certain operations discontinued in prior years. The actual costs incurred have proven to be less than the amounts initially estimated.

LIQUIDITY AND CAPITAL RESOURCES

During 1991, funds generated from operating activities were sufficient for net capital spending requirements and a reduction in short-term bank indebtedness of \$59.8 million. Certain of the proceeds of long-term borrowings were used to reduce the short-term bank indebtedness by a further \$25.1 million.

Cash deficiencies are financed by short-term bank borrowings. As at December 31, 1991, short-term bank loans amounted to \$21.8 million. The Company has arrangements with a number of Canadian and U.S. banks which provide lines of credit in excess of the Company's short-term borrowing requirements.

During 1991, the Company issued and sold \$150 million 10% Notes in the Eurocanadian market and entered into capital leases totalling \$5.1 million. The Company retired \$130.0 million of long-term debt during the year, consisting mainly of contractual obligations and sinking fund requirements. As a result of the net increase in debt and the reduction in retained earnings, the Company's long-term debt ratio increased to 34.8% at December 31, 1991, from the 1990 year-end level of 34.4%.

Overall Company indebtedness, comprising long-term debt (including current portion) and bank indebtedness, less cash and time deposits, decreased to \$1,912.8 million from \$1,973.5 million.

Planned capital expenditures for 1992 are approximately \$435 million. In addition, the Company anticipates that capital expenditures for 1993 through 1996 will aggregate approximately \$1.8 billion, and will include funds required for the renewal of the basic plant, purchase of rolling stock and other equipment, real estate development and improvement of operating efficiency. The Company expects that although the major portion of these expenditures will be funded internally, the aggregate of capital expenditures, together with debt maturities in the period, may require further borrowings.

As at December 31, 1991 the Company had commitments to purchase railway ties at an aggregate cost of \$11.5 million and rail at a cost of \$13.7 million.

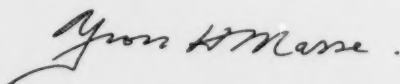
The accompanying consolidated financial statements of Canadian National Railway System and all information in this annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The board of directors carries out its responsibility for the financial statements in this report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval by the board of directors. Also, the audit committee meets regularly with the Vice-President Internal Audit and with the Shareholder's Auditors, appointed by the Government of Canada.

These consolidated financial statements have been examined by the Shareholder's Auditors, Deloitte & Touche and Raymond, Chabot, Martin, Paré, whose report is presented below.



Yvon H. Masse
Senior Vice-President and
Chief Financial Officer

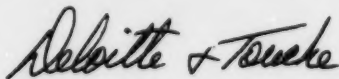
AUDITORS' REPORT

To the Minister of Transport
Ottawa, Canada

We have audited the consolidated balance sheets of Canadian National Railway System as at December 31, 1991 and 1990 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1991. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

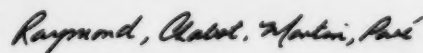
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the System as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1991 in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS
(For the years ended
December 31, 1991, 1990
and 1989).

Montreal, Quebec
March 10, 1992



CHARTERED ACCOUNTANTS
(For the years ended
December 31, 1991 and
1990).

Montreal, Quebec
March 10, 1992

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31
(IN THOUSANDS)

		1991	1990	1989
CN Rail	Revenues	\$3,489,444	\$3,398,175	\$3,528,331
	Expenses	3,508,545	3,498,337	3,403,307
	Income (loss)	(19,101)	(100,162)	125,024
Grand Trunk Corporation	Revenues	376,542	431,147	461,312
	Expenses	431,964	441,729	447,625
	Income (loss)	(55,422)	(10,582)	13,687
Enterprises group:				
CN Real Estate	Revenues	77,449	130,047	101,827
	Expenses	52,990	46,812	34,786
	Other income	5,693	12,435	25,949
	Income	30,152	95,670	92,990
Other	Income	10,080	12,250	17,273
Total Enterprises group		40,232	107,920	110,263
Income (loss) from continuing operations before income taxes		(34,291)	(2,824)	248,974
Income taxes		(3,118)	(4,196)	48,669
Net income (loss) from continuing operations		(31,173)	1,372	200,305
Discontinued operations				
CN Exploration results of operations net of applicable income taxes of \$1,066 (1990-\$2,126, 1989-\$2,362)		2,676	6,362	5,446
Reversal of provisions for disposal costs of previously discontinued operations net of applicable income taxes of \$9,560		14,239	-	-
Net income (loss)		\$ (14,258)	\$ 7,734	\$ 205,751

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

DECEMBER 31
(IN THOUSANDS)

		1991	1990
Assets			
Current	Accounts receivable	\$ 479,745	\$ 449,598
	Material and supplies	240,033	260,032
	Other	252,815	280,094
		972,593	989,724
Investments		141,469	135,772
Properties		5,752,946	5,809,887
Other Assets and Deferred Charges		97,699	92,885
		\$ 6,964,707	\$ 7,028,268
Liabilities			
Current	Bank indebtedness	\$ 29,165	\$ 114,050
	Accounts payable and accrued charges	854,019	826,974
	Current portion of long-term debt	281,967	103,055
	Other	227,963	263,172
		1,393,114	1,307,251
Other Liabilities and Deferred Credits		408,512	380,811
Deferred Income Taxes		25,654	33,823
Long-Term Debt		1,601,697	1,756,395
Minority Interest in Subsidiary Companies		4,345	4,345
Shareholder's Equity			
	Capital stock	\$ 2,278,867	\$ 2,278,867
	Retained earnings	1,252,518	3,545,643
		\$ 6,964,707	\$ 7,028,268

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

On behalf of the board:
Brian R.D. Smith, Director
Ronald E. Lawless, Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31
(IN THOUSANDS)

	1991	1990	1989
Balance, beginning of year	\$1,266,776	\$1,260,589	\$1,095,988
Net income (loss)	(14,258)	7,734	205,751
Dividend	-	(1,547)	(41,150)
Balance, end of year	\$1,252,518	\$1,266,776	\$1,260,589

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31
(IN THOUSANDS)

	1991	1990	1989
Operating activities:			
Net income (loss) from continuing operations	\$ (31,173)	\$ 1,372	\$ 200,305
Non-cash charges to income:			
Depreciation and amortization	269,025	260,910	256,628
Income of equity investees less dividends	(17,232)	(14,634)	(29,255)
Deferred income taxes (recovery)	(18,795)	(12,873)	42,208
Changes in current assets and liabilities			
Accounts receivable	(30,147)	(17,643)	(15,810)
Material and supplies	19,999	(8,876)	(32,004)
Other current assets	27,279	(9,521)	3,563
Accounts payable and accrued charges	27,045	(23,303)	44,108
Other current liabilities	(35,209)	8,613	34,878
Other	47,295	(44,008)	(55,323)
Cash from continuing operations	258,087	140,037	449,298
Cash from discontinued operations	13,012	17,022	15,946
	271,099	157,059	465,244
Investing activities:			
Additions to properties	(239,040)	(327,175)	(370,960)
Net proceeds from disposal of properties	18,049	61,916	62,560
Investments in unconsolidated affiliates	(7,815)	(24,472)	(23,204)
Advances from unconsolidated affiliates	14,097	17,513	21,323
Repayment of advances by unconsolidated affiliates	3,359	1,194	1,538
	(211,350)	(271,024)	(308,743)
Dividend paid to shareholder	—	(56,533)	—
Cash provided (used) before financing activities	59,749	(170,498)	156,501
Financing activities:			
Issuance of long-term debt	155,144	10,396	14,381
Reduction of long-term debt	(130,008)	(82,672)	(78,344)
	25,136	(72,276)	(63,963)
Net increase (decrease) in cash	84,885	(242,774)	92,538
Cash (bank indebtedness), beginning of year	(114,050)	128,724	36,186
Net cash (bank indebtedness), end of year	\$ (29,165)	\$ (114,050)	\$ 128,724

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

**NOTE 1:
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES****Introduction**

All references in these Notes to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and, unless the context otherwise requires, its consolidated subsidiaries, and all references to the "System" mean Canadian National Railway Company and its consolidated subsidiaries together with the lines of railway and other property entrusted by the Government of Canada to the Company for management and operation.

a) Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries and, consistent with the legislation governing the System, the accounts of the Canadian Government Railways entrusted to the Company by the Government of Canada.

Investments in entities in which the Company has less than a majority interest are accounted for by the equity method, where appropriate.

b) Reporting by Division

In presenting the results by division, interdivisional charges for services have not been eliminated. Consolidated net income is not affected by this practice.

c) Material and Supplies

The inventory is valued at laid down cost based on weighted average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

d) Properties

Accounting for railway properties is carried out in accordance with rules issued by the National Transportation Agency of Canada (Canadian properties) and the Interstate Commerce Commission (United States properties). Generally, major additions and replacements are capitalized and interest costs are charged to expense.

The cost of depreciable railway assets retired or disposed of, less salvage, is charged to accumulated depreciation, in accordance with the group plan of depreciation. Other depreciable assets retired or disposed of are accounted for in accordance with the unit plan whereby gains or losses are taken into income as they occur.

The Company follows the successful efforts method of accounting for its oil and gas operations whereby the acquisition costs of oil and gas properties, the costs of successful exploratory wells and the costs of drilling and equipping development wells are capitalized.

CN Real Estate's properties are stated at cost. Carrying costs of properties under development are capitalized. Such costs include real estate taxes, insurance, interest and other expenses directly related to the development activity.

e) Depreciation

Depreciation is calculated on a straight-line basis at rates sufficient to allocate the cost of properties over their estimated useful lives. For railway properties, depreciation rates are authorized by the National Transportation Agency of Canada and the Interstate Commerce Commission. The rates for significant classes of assets are as follows:

	Annual Rate
Ties	2.71%-2.73%
Rails	1.93%
Other track material	2.23%-2.83%
Ballast	3.27%
Road locomotives	4.30%
Freight cars	0.63%-3.15%

Acquisition costs of oil and gas properties are amortized on a straight-line basis over the term of the lease until such time as the properties are determined to be productive or judged to be impaired. Acquisition costs of productive properties and costs of successful exploratory drilling and of drilling and equipping development wells are charged against income on the unit-of-production method based upon proven reserves of oil and gas. Exploratory dry hole and acquisition costs judged to be impaired are charged against income in the current period. Other exploratory expenditures are charged against income as incurred.

CN Real Estate assets are depreciated using the straight-line method calculated over the estimated economic life of the asset.

NOTE 1:
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES
(CONTINUED)

f) Revenues

Transportation: Revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Costs associated with movements not completed are deferred.

Real estate: Rental revenues are recognized as earned. Revenues from disposition of properties are recognized on completion of the sale. The share of income from joint ventures is recognized on an equity basis and reported as Other income.

g) Pensions

Pension costs are determined periodically by independent actuaries. Pension expense is charged annually to operations and comprises the total of the following:

- the cost of pension benefits provided in exchange for employees' services rendered during the year, and
- amortization of past service costs over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the accrued benefit actuarial cost method.

h) Foreign Exchange

The Company's foreign operations are classified as integrated and are translated and accounted for on the following bases. Current assets (excluding material and supplies), current liabilities and long-term debt are translated at the rates in effect at the balance sheet date, whereas all other assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates during the year except for depreciation which is translated at exchange rates prevailing when the related properties were acquired.

The Company's own foreign denominated assets and liabilities are accorded similar treatment. Revenues and expenses are translated at rates prevailing at the time of the transactions except for revenues designated as a hedge against repayment of foreign denominated long-term debt which are translated at the rate in effect at the inception of the debt.

Currency gains and losses are reflected in net income for the year, except for unrealized foreign currency losses on long-term debt. The Company has designated future U.S. dollar revenue streams as a hedge against the repayment of most of its long-term debt denominated in U.S. dollars, and has thus deferred reflecting the related unrealized foreign currency translation losses in net income until the earlier of the debt repayment or the expiry of the hedge. Unrealized foreign currency losses related to long-term debt denominated in U.S. dollars not covered by the hedge are deferred and amortized over the remaining life of the debt. Such deferred amounts are included in the Consolidated Balance Sheet as part of Other Assets and Deferred Charges.

i) Leases

Leases which satisfy the criteria for capital leases and which have been entered into after 1981 have been capitalized. Other leases entered into prior to 1982, satisfying the criteria for capital leases, have been recorded as operating leases.

NOTE 2:
DISCONTINUED
OPERATIONS

a) Subsequent to the year end the Company commenced implementation of a plan to dispose of the assets of CN Exploration. This decision was made pursuant to the Minister of Finance of Canada's 1991 Budget announcement of the Government's intention to privatize CN Exploration with the proceeds from the sale being remitted to the Government. Accordingly, CN Exploration's results have been reclassified as discontinued operations.

b) Income from discontinued operations includes amounts totalling \$23.8 million less income taxes of \$9.6 million representing reversals of portions of estimated disposition costs of certain operations discontinued in prior years. The actual costs incurred proved to be less than the amounts initially estimated.

NOTE 3:
INVESTMENTS

	Percentage of Voting Interest	December 31	
		1991	1990
(in thousands)			
Entities accounted for by equity method:			
CNCP Niagara-Detroit Partnership	50%	\$ 19,305	\$ 18,646
The Toronto Terminals Railway Company	50%	11,260	10,682
Other		55,288	50,828
		85,853	80,156
Other investments at cost less provisions for impairment where applicable		55,616	55,616
Total		\$141,469	\$135,772

**NOTE 4:
PROPERTIES**

	December 31, 1991			December 31, 1990		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
	(in thousands)			(in thousands)		
CN Rail	\$8,593,434	\$3,486,518	\$5,106,916	\$8,488,536	\$3,317,177	\$5,171,359
Grand Trunk Corporation	527,107	152,807	374,300	526,394	145,682	380,712
Enterprises group:						
CN Real Estate	175,612	24,952	150,660	161,983	22,736	139,247
Other	75,685	20,693	54,992	75,737	20,692	55,045
Discontinued operations:						
CN Exploration	136,913	70,835	66,078	125,328	61,804	63,524
	<u>\$9,508,751</u>	<u>\$3,755,805</u>	<u>\$5,752,946</u>	<u>\$9,377,978</u>	<u>\$3,568,091</u>	<u>\$5,809,887</u>
Amounts included above with respect to Canadian Government Railways entrusted to the Company by the Government of Canada	\$1,066,050	\$ 610,318	\$ 455,732	\$1,043,036	\$ 579,815	\$ 463,221

At December 31, 1991 the gross value of assets under capital leases included above was \$102.6 million (1990 - \$97.4 million) and related accumulated amortization thereon amounted to \$23 million (1990 - \$18.9 million).

**NOTE 5:
LONG-TERM
DEBT**

				Currency in which Payable	December 31	
					1991	1990
				Maturity	(in thousands)	
Bonds, Debentures and Notes						
Canadian National Notes	11-3/8%	8 Year	June 11, 1993	Canadian	\$ 100,000	\$ 100,000
Canadian National Notes	9-7/8%	8 Year	Mar. 18, 1994	Canadian	100,000	100,000
Canadian National Notes	12-1/2%	10 Year	Apr. 15, 1995	Canadian	100,000	100,000
Canadian National Japanese Yen Notes (a)	6-1/2%	10 Year	Mar. 26, 1996	Canadian	70,000	70,000
Canadian National Notes	9-3/8%	10 Year	Oct. 1, 1996	Canadian	100,000	100,000
Canadian National Sinking Fund Debentures	9-1/4%	20 Year	Mar. 15, 1998	United States	35,609	44,511
Canadian National Notes	10%	7 Year	Oct. 23, 1998	Canadian	150,000	-
Canadian National Swiss Franc Bonds (b)	5-3/8%	15 Year	Aug. 22, 2000	Canadian	98,617	98,617
Canadian National Notes	8-7/8%	15 Year	May 21, 2001	Canadian	150,000	150,000
Canadian National Sinking Fund Debentures	8-3/8%	25 Year	July 1, 2002	United States	58,264	63,561
Canadian National Sinking Fund Debentures	9.70%	25 Year	July 15, 2004	United States	130,622	152,781
Canadian National Sinking Fund Debentures	13%	20 Year	Nov. 15, 2004	Canadian	83,660	86,928
Canadian National Sinking Fund Debentures	12-1/4%	20 Year	May 1, 2005	Canadian	120,833	125,000
Canadian National Sinking Fund Debentures	14%	25 Year	Jan. 15, 2006	United States	54,506	84,158
Canadian National Sinking Fund Debentures	15%	25 Year	June 1, 2006	United States	28,696	77,230
Canadian National Sinking Fund Debentures	16-1/4%	25 Year	Mar. 1, 2007	United States	41,291	55,695
Canadian National Sinking Fund Debentures	14-3/4%	30 Year	Sept. 1, 2012	United States	55,722	55,722

NOTE 5:
LONG-TERM
DEBT
(CONTINUED)

				Maturity	Currency in which Payable	December 31	
						1991	1990
						(in thousands)	
Canadian National	12%	30 Year					
Sinking Fund Debentures			Mar. 15, 2013	United States	122,548	122,548	
Buffalo and Lake Huron	5-1/2%						
1st Mortgage Bonds			Perpetual	Sterling	795	795	
Buffalo and Lake Huron	5-1/2%						
2nd Mortgage Bonds			Perpetual	Sterling	1,228	1,228	
Total Bonds, Debentures and Notes						1,602,391	1,588,774
Government of Canada Loan (c)						132,981	147,634
Other							
Amounts owing under equipment purchase agreements (d)				Various	76,477	93,120	
Syndicated loan (e)				Canadian	42,610	42,610	
Capital lease obligations (f)				Various	89,013	88,449	
Adjustment to current exchange rate (see Note 1 h))					(16,446)	(14,532)	
Total Other						191,654	209,647
						1,927,026	1,946,055
Less: In-substance defeasance (g)						38,507	74,091
Current portion of long-term debt						281,967	103,055
Unamortized discount and other						4,855	12,514
						325,329	189,660
Long-Term Debt						\$1,601,697	\$1,756,395

- a) The Company borrowed \$70.0 million at an all-inclusive cost of 10.25% by means of a Euro-yen public note issue and a currency swap.
- b) The Company borrowed \$98.6 million at an all-inclusive cost of 11.17% by means of a public bond issue in Switzerland and a currency swap.
- c) The Government of Canada loan bears interest at 8-3/4% per annum and is payable in equal semi-annual instalments of \$13.63 million covering principal and interest to June 30, 1998.
- d) Secured by rolling stock and payable by semi-annual or quarterly instalments over various periods to 2001 at interest rates ranging from 8-1/2% to 11-1/2%. As at December 31, 1991, the principal amounts are payable as U.S. \$41.8 million and Canadian \$22.2 million (December 31, 1990 - U.S. \$57.2 million, Canadian \$22.7 million).
- e) The Company borrowed \$42.6 million at an all-inclusive cost of 11.535% by means of a yen syndicated loan and currency swap.
- f) Interest rates for these leases range from approximately 9% to 14-1/2% with expiry dates occurring during the years 1992 through 2004. The imputed interest on these leases amounts to \$44.6 million (1990 - \$73.9 million).
- g) Certain of the Company's long-term debt is considered to be extinguished as a result of the Company's having placed in irrevocable trusts, government securities sufficient to satisfy the interest and maturing principal requirements of the specific debt obligations involved.
- h) Principal repayments, including sinking fund repayments, repurchase arrangements and capital lease repayments, on debt outstanding at December 31, 1991, are as follows:

Year ending December 31:	(in thousands)
1992	\$281,967
1993	175,086
1994	188,920
1995	75,147
1996	241,461
1997 - 2001	681,150
2002 - 2006	190,104
2007 - 2011	25,999
2012 - 2016	16,755

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: SHAREHOLDER'S EQUITY

a) Capital Stock

The capital stock of Canadian National Railway Company, \$2,278,866,774, consists of 5,868,786 common shares of no par value authorized, issued and outstanding which are owned by the Government of Canada.

b) Retained Earnings

Under its governing legislation, the Company is required to pay to the Receiver General for Canada a dividend equal to 20% of net income for the year or such greater percentage as the Governor in Council may direct. Dividends for each of the years 1989 and 1990 have been accrued and are included in Other Current Liabilities.

NOTE 7: MAJOR COMMITMENTS AND CONTINGENCIES

a) Leases

(i) The Company's commitments as at December 31, 1991, under leases, excluding those which have been capitalized and for which the lease obligations are recorded as long-term debt (see Note 5), are as follows:

Non-Cancellable Leases	Pre-1982 Capital Leases	Operating Leases
	(in thousands)	
Year ending December 31:		
1992	\$ 3,612	\$ 130,832
1993	1,361	119,689
1994	998	113,287
1995	998	101,707
1996	895	108,176
1997 - 2001	2,973	528,167
2002 - 2006	721	274,664
Thereafter	—	12,173
Total minimum lease payments	11,558	\$1,388,695
Less amount representing imputed interest	3,026	
Present value of net minimum lease payments under capital leases	\$ 8,532	

A significant portion of the leases is in respect of railway rolling stock and many of them provide renewal options and an option to purchase the property at fair market value at the end of the lease terms.

(ii) Rental expenses under all lease arrangements which have not been capitalized were:

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Total expenses	\$148,534	\$138,584	\$140,628
Expenses under pre-1982 capital leases included in total expenses	\$ 4,951	\$ 9,023	\$ 22,909

(iii) Increases in income, assets and liabilities in the consolidated financial statements, which would have arisen if leases entered into prior to 1982 and which satisfied the criteria for capital leases had been capitalized, are as follows:

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Increase in Net Income	\$ 1,104	\$ 1,940	\$ 4,925
Increase in Assets			
Properties			
Leased properties under capital leases	\$ 31,107	\$ 46,265	\$ 98,706
Less accumulated amortization	21,666	34,981	85,363
	9,441	11,284	13,343
Other Assets and Deferred Charges			
Unamortized deferred exchange loss	230	582	977
	\$ 9,671	\$ 11,866	\$ 14,320

NOTE 7:
MAJOR
COMMITMENTS
AND CONTINGEN-
CIES
(CONTINUED)

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Increase in Current Liabilities			
Present value of obligations under capital leases	\$ 2,934	\$ 3,761	\$ 6,388
Increase in Non-Current Liabilities			
Present value of obligations under capital leases	\$ 8,292	\$ 11,746	\$ 17,760
Adjustment to current exchange rate (see Note 1 h))	240	561	928
	8,532	12,307	18,688
Less current portion	2,934	3,761	6,388
	\$ 5,598	\$ 8,546	\$ 12,300

b) Other Commitments

The Company has commitments at December 31, 1991, for capital expenditures of \$11.5 million for railway ties and \$13.7 million for rail.

c) Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries, damage to property and environmental matters. While the final outcome with respect to actions outstanding or pending at December 31, 1991 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the System's financial position.

NOTE 8:
SUBSIDIES

Revenues include the following subsidies:

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Government of Canada			
a) Payments under the Railway Act paid under authority of that Act and the related Appropriation Act in respect of certain uneconomic operations, services and prescribed rates which railways are required by the Railway Act to maintain	\$ 8,065	\$ 23,180	\$ 32,818
b) Maritime Freight Rates Act and Atlantic Region Freight Assistance Act subsidies	15,279	14,383	17,381
c) Sundry	-	-	548
	\$ 23,344	\$ 37,563	\$ 50,747

NOTE 9:
PENSIONS

The Company has retirement benefit plans covering substantially all its employees under which they are entitled to benefits at retirement age generally based on compensation and length of service and/or contributions.

The actuarial valuations as at December 31, 1990, revealed a consolidated actuarial liability of \$7.3 billion and a consolidated actuarial asset value of \$6.8 billion. It is estimated that those amounts could approximate \$7.4 billion and \$7.0 billion respectively as at December 31, 1991. Subsequent actuarial valuations will determine the actuarial values at that date.

Annual pension costs were:

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
	\$114,678	\$123,402	\$156,552

NOTE 10:
SYSTEM INTEREST
EXPENSE

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Interest on long-term debt	\$196,706	\$207,387	\$214,272
Interest on short-term borrowings	12,709	4,348	217
Interest income	(1,060)	(4,306)	(15,332)
	\$208,355	\$207,429	\$199,157

NOTE 11:
INCOME TAXES

a) The Company's provision for income taxes on continuing operations is made up as follows:

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
Provision for (recovery of) income taxes on income from continuing operations based on combined basic Canadian federal and provincial tax rate for 1991 of 41.0% (1990 and 1989 - 40.8%)	\$(14,063)	\$ (1,153)	\$ 101,681
Increase (decrease) in taxes resulting from:			
Non-allowable foreign exchange loss on conditional sale agreements	172	258	414
Profit on sale of land	(6,970)	(14,826)	(22,858)
Federal large corporations tax	14,800	7,400	4,000
Other	2,943	4,125	4,642
Application of prior years' losses	-	-	(39,210)
Actual provision for (recovery of) income taxes on income from continuing operations	\$(3,113)	\$ (4,196)	\$ 48,669
Represented by:			
Current	\$ 15,677	\$ 8,677	\$ 6,461
Deferred	(18,795)	(12,873)	42,208
	\$(3,118)	\$ (4,196)	\$ 48,669

Deferred income taxes result primarily from the difference between capital cost allowance claimed for income tax and depreciation recorded for accounting purposes.

b) Investment tax credits are also available to reduce future income taxes otherwise payable until the related year of expiry as follows:

Year of expiry:	(in millions)
1993	\$25.9
1994	33.9
1995	29.7
1996	18.9
1997	14.0
1998	9.0
1999	2.1
2000	1.4

NOTE 12:
SEGMENTED
INFORMATION

a) Geographic Areas

Virtually all of the System's operations and assets are within Canada with the exception of Grand Trunk Corporation which operates in the United States.

b) International Traffic

In addition to the revenue generated by Grand Trunk Corporation, the System derives revenue from traffic originating or terminating on railroads in the United States. In 1991, such revenues approximated \$629 million (1990 - \$604 million, 1989 - \$622 million).

NOTE 12:
SEGMENTED
INFORMATION
(CONTINUED)

c) Revenues by Division

	Year ended December 31		
	1991	1990	1989
	(in thousands)		
CN Rail	\$3,489,444	\$3,398,175	\$3,528,331
Grand Trunk Corporation	376,542	431,147	461,312
Enterprises group:			
CN Real Estate	77,449	130,047	101,827
Other	80,419	79,461	80,301
Discontinued operations:			
CN Exploration	33,322	38,962	30,283
	<u>\$4,057,176</u>	<u>\$4,077,792</u>	<u>\$4,202,054</u>

d) Identifiable Assets by Division

	December 31		
	1991	1990	1989
	(in thousands)		
CN Rail	\$6,077,560	\$6,086,633	\$6,143,025
Grand Trunk Corporation	504,038	557,807	591,993
Enterprises group:			
CN Real Estate	224,861	218,502	218,216
Other	86,271	94,291	81,829
Discontinued operations:			
CN Exploration	71,977	71,035	70,288
	<u>\$6,964,707</u>	<u>\$7,028,268</u>	<u>\$7,105,351</u>

e) Capital Expenditures and Depreciation by Division

	Capital Expenditures *			Depreciation		
	Year ended December 31			Year ended December 31		
	1991	1990	1989	1991	1990	1989
	(in thousands)			(in thousands)		
CN Rail	\$193,965	\$285,336	\$293,816	\$251,296	\$244,029	\$239,020
Grand Trunk Corporation	9,927	20,670	18,194	13,965	13,675	14,494
Enterprises group:						
CN Real Estate	20,123	6,430	44,487	1,870	1,844	1,419
Other	1,484	2,105	1,161	1,530	1,363	1,696
Discontinued operations:						
CN Exploration	13,541	12,634	13,302	9,270	8,534	8,138
	<u>\$239,040</u>	<u>\$327,175</u>	<u>\$370,960</u>	<u>\$277,931</u>	<u>\$269,445</u>	<u>\$264,767</u>

* Represent additions to properties.

NOTE 13:
OTHER MATTERS

- a) The Company carries on ordinary business transactions with various entities controlled by the Government of Canada on the same terms and conditions as current transactions with unrelated parties.

In addition, the Company provides, under contractual arrangements, rail transportation and maintenance services to the Government of Canada and to entities controlled by the latter. The revenue derived from such services rendered in 1991 aggregated \$91.8 million (1990 - \$102.1 million, 1989 - \$101.5 million).

- b) Following enactment of the Western Grain Transportation Act, which became effective on January 1, 1984, the Government of Canada, in order to minimize the cost to grain shippers, pays a portion of the cost of shipping grain. Amounts received from the Government of Canada under the Western Grain Transportation Act amounted to \$414.3 million in 1991 (1990 - \$335.3 million, 1989 - \$332.6 million), a reflection principally of the volume of grain handled.

NOTE 14:
RECLASSIFICATION
OF COMPARATIVE
FIGURES

During 1991, changes were made to improve the classification of certain items and for comparative purposes the 1990 and 1989 figures have been reclassified.

New Accounting Standards for Pension Plan Financial Statements

The 1991 financial statements of the CN Pension Plan and the CN 1935 Pension Plan have been prepared in accordance with the new accounting standards of the Canadian Institute of Chartered Accountants which refer to a pension plan as a reporting entity separate from the sponsor and the plan participants. These financial statements provide useful information on the pension plans, including the market value of the consolidated net assets and the disclosure of the consolidated pension obligation. They are prepared for the participants as a group and for other interested parties, but they do not deal with reporting to individual participants about their individual pension benefits.

Indexation of Pension Benefits

As a result of the indexation agreement negotiated with the railway unions in 1989, approximately 39,000 retirees and surviving spouses received permanent pension increases in 1991. These increases amounted to 2.55% on the first \$1,000 of the basic CN monthly pensions, with a guaranteed minimum monthly pension increase of \$9.00 to eligible retirees and \$4.50 for surviving spouses respectively.

Under this indexation agreement, starting January 1, 1989 50% of the experience gains or losses related to pensioners are accounted for separately. These net experience gains are used exclusively to pay for indexation of pensions above the minimum up to the maximum annual amount. The maximum annual indexation to eligible retirees and survivors is 50% of the increase in the Consumer Price Index (CPI) to a maximum increase in CPI of 6% with an annual limit on the amount of pension which can be indexed. The basic eligibility requirements to qualify for indexation are to have been retired for 5 complete calendar years and to have reached age 65.

Trustee

The year 1991 was the first full year that Montreal Trust Company of Canada (Montreal Trust) operated as trustee of the Canadian National Railways Pension Trust Fund. As trustee, Montreal Trust performs certain duties which include holding legal title to the assets of the Fund and ensuring that the Company, as administrator, complies with the provisions of the plans referred to above and the Pension Benefits Standard Act 1985 and its regulations. As a result, the cheques and direct deposit statements from these plans are issued in the name of Montreal Trust, Trustee of the CN Pension Trust Fund.

Services to Pensioners

a) Direct Deposit:

The Direct Deposit System (DDS) is available free of charge to all retirees and survivors. Under this system, the monthly pension benefit is deposited directly into the individual's personal account and an itemized pension pay stub is sent to the beneficiary. More than 80% of pensioners use this service.

b) Toll-free help lines:

Regional toll-free help lines were in place for several years to ensure that pensioners had prompt answers to any CN pension-related questions that they may have had. This service has now been improved with the introduction of a central toll-free help line, 1-800-361-0739, effective January 1, 1992.



MONTREAL TRUST

To: The Administrator and the members of the CN 1935 Pension Plan and the CN Pension Plan.

We, Montreal Trust Company of Canada, are the Trustee of the Canadian National Railways Pension Trust Fund ("CN Pension Trust Fund"). As Trustee, we have examined the systems, procedures and internal controls used in respect of the custody, investment, and administration of the assets of the CN Pension Trust Fund, the administration of the CN 1935 Pension Plan ("1935 Plan") and the CN Pension Plan, and the performance of Canadian National Railway Company ("CN") as Administrator of the 1935 Plan and the CN Pension Plan for the year ended December 31, 1991.

Our examination included such tests and procedures as we considered necessary in the circumstances taking into consideration the requirements of the Trust Deed and our experience in the Canadian pension industry.

In our opinion, based on the reasonable, but not absolute, degree of assurance obtained from our examination, the aforementioned systems, procedures and internal controls, used by CN as Administrator, operated effectively during the year ended December 31, 1991, and complied with the requirements of the Pension Benefits Standards Act 1985 and its Regulations.

Montreal Trust Company of Canada
Trustee of the Canadian National
Railways Pension Trust Fund.

Montreal, March 10, 1992

AUDITORS' REPORT

To the Minister of Transport,
Ottawa, Canada

We have audited the Consolidated Statement of Net Assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 1991 and the Consolidated Statement of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 1991 and the changes in their net assets for the year then ended in accordance with generally accepted accounting principles.



Deloitte & Touche
Chartered Accountants
Montreal, Quebec
March 10, 1992

ACTUARY'S REPORT

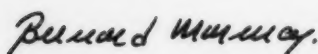
To the Trustee
Canadian National Railways Pension Trust Fund

We have conducted actuarial valuations as at December 31, 1990 for the CN Pension Plan and the CN 1935 Pension Plan. These valuations are in accordance with generally accepted actuarial principles and the Recommendations of the Canadian Institute of Actuaries.

As at December 31, 1990, these valuations revealed a consolidated actuarial liability of approximately \$7.3 billion, a consolidated unfunded actuarial liability of \$450 million and required consolidated Company contributions which represented \$114.8 million in 1991. The next actuarial valuations will be conducted as at December 31, 1993, at the latest.

In my opinion,

- the data on which these valuations were based were sufficient and appropriate for purposes of the valuations;
- the assumptions used were adequate and appropriate for purposes of the valuations; and
- the methods employed in the valuations were consistent with sound actuarial principles.



Bernard Morency
Fellow of the Canadian Institute of Actuaries

William M. Mercer Limitée
Montreal, February 18, 1992

**CONSOLIDATED STATEMENT OF NET ASSETS
AT MARKET VALUE**

AS AT DECEMBER 31
(IN THOUSANDS)

	1991	1990
Bonds	\$2,862,366	\$2,788,516
Mortgages	143,276	141,690
Real estate	588,521	629,964
Oil and gas	210,700	261,900
Equities	3,296,991	2,744,852
Accounts receivable - Canadian National Railway Company	7,478	7,402
Cash and short-term investments	149,838	115,664
	7,259,170	6,689,988
Less: Other net liabilities	60,462	25,183
	\$7,198,708	\$6,664,805

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
AT MARKET VALUE**

**YEAR ENDED DECEMBER 31
(IN THOUSANDS)**

	1991	1990
Net assets at market value, beginning of year	\$6,664,805	\$7,175,838
Investment income		
Bonds	276,499	286,228
Mortgages	14,504	16,272
Real estate	22,874	23,373
Equities	88,617	87,854
Oil and gas	3,264	8,688
Short term	12,972	29,372
	418,730	451,787
Less Administrative expenses	(8,468)	(7,636)
Investment income (excluding realized gains)	410,262	444,151
Gains on sale of investments	70,304	85,642
Total	480,566	529,793
Unrealized appreciation (depreciation) in value of investments	394,849	(780,243)
Contributions		
Employees	86,433	87,356
Company	114,788	123,733
Total	201,221	211,089
Disbursements for members		
Pension benefits paid	(487,761)	(452,490)
Refunds	(28,096)	(24,690)
Total	(515,857)	(487,180)
Transfers	(26,876)	15,508
Net increase (decrease)	533,903	(511,033)
Net assets at market value, end of year	\$7,198,708	\$6,664,805

On behalf of the board:
Brian R.D. Smith, Director
Ronald E. Lawless, Director

1. DESCRIPTION OF PLANS

These consolidated financial statements cover two pension plans, the CN Pension Plan and the CN 1935 Pension Plan (CN Plans) and include the accounts of the Canadian National Railways Pension Trust Fund and its wholly-owned companies. All references in these financial statements to the "Company" refer to Canadian National Railway Company which is wholly-owned by the Government of Canada and is the administrator of the CN Plans. The CN 1935 Pension Plan is for a closed group of members and represents less than 1% of the pension obligation of the plans. Therefore, the following is a summarized description of the CN Pension Plan only. Please refer to the rules of the Plan for additional information.

(a) General

The CN Pension Plan is a contributory defined benefit pension plan compulsory for new employees after 6 months of service with retroactive effect to the first day of employment. Under this Plan, employees contribute between 5.48% and 5.88% of earnings to the Year's Maximum Pensionable Earnings (YMPE) under the Canada or Quebec Pension Plan and between 6.98% and 7.38% of earnings in excess of YMPE up to a maximum of \$5,500 in 1991. However, they are not required to make contributions after 35 years of pensionable service. Company contributions are determined on the basis of actuarial valuations done at least on a triennial basis in accordance with the requirements of the Pension Benefits Standards Act 1985 and regulations thereunder.

(b) Pension

Pensions are based on the best 5 consecutive calendar years or the last 60 months average earnings, 2% for each year of pensionable service prior to January 1, 1966, 1.3% for each year of pensionable service thereafter up to the average YMPE over the last consecutive 60 months and 2% of the excess of such average earnings over the average YMPE. The maximum annual pension payable is limited to \$1,715 multiplied by the pensionable service of the member.

(c) Retirement Age

The normal retirement age is 65. However, employees with 85 points (age plus pensionable service) and with the Company's consent are entitled to an early retirement pension without reduction as long as they are at least 55 years of age.

(d) Disability Pension

A member who is declared unfit to follow his (her) usual employment with the Company by the Company's Director of Medical Services may elect for an immediate unreduced pension subject to certain eligibility requirements. However, such a member cannot be in receipt of Long Term Disability benefits and must have completed 12 years of pensionable service in 1990 if the member had elected for a disability pension in 1990 and 10 years of pensionable service if the member had elected for a disability pension in 1991.

(e) Pre-Retirement Survivor's Pension and Death Refund

A survivor's pension is payable to the eligible spouse of a member who had a minimum of 15 years pensionable service or who was 55 years old or more and had a minimum of 2 years of plan membership upon his (her) death. Otherwise, a death refund is payable to the estate of the member. The Pension Board may however authorize payment of a pension under certain circumstances allowed in the CN Pension Plan rules.

(f) Post-Retirement Survivor's Pension and Estate Settlement

Upon death of a retiree who had an eligible spouse at retirement, either 50% or 60% of the basic pension of the retiree is payable to that spouse during his (her) lifetime depending on the option elected at retirement. The survivor pension is guaranteed for the first 10 years after retirement. If the retiree and the surviving spouse if any, die in the first 10 years after retirement, the survivor pension will be payable to the estate of the retiree until the 10-year period is over.

(g) Termination Benefit

Upon termination of service, a member is entitled to either his (her) contributions with interest or to the value of his (her) benefits accrued under the plan or to a deferred pension or a combination of the above, depending on his (her) age, pensionable service and years of membership at termination.

(h) Income Tax

The Plan is registered under the Income Tax Act and regulations. Contributions to the plan are tax deductible and investment income of the Canadian National Railways Pension Trust Fund is not taxable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared on a going concern basis in accordance with the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for pension plans and present the aggregate financial position of the CN Plans as a separate financial reporting entity independent of the sponsor and plan members. Accordingly the prior year's financial statements which were reported upon by another firm of chartered accountants and prepared on a book value basis were restated to conform with the newly required market value basis. These statements are prepared to assist plan members and others in reviewing the activities of the CN Plans for the fiscal period but they do not portray the funding requirements of the plans or the benefit security of individual members.

(b) Valuation of Net Assets

Net assets are stated at market value which is determined using listed market values where available. Where listed market values are not available, estimated values are calculated using discounted cash flows, comparable market value or break up value of underlying assets. Valuation of net assets by category is as follows:

- (i) Bonds, a majority of which are issued by the Government of Canada, are valued based on the closing market quotations as of December 31.
- (ii) Equities are valued based on the closing market quotations as of December 31.
- (iii) Mortgages are secured by real estate and are valued using current market yields.
- (iv) Real estate consists of land, buildings, and equities. Land is valued at comparable market value, buildings are valued using discounted cash flows and equities are valued based on the closing market quotations as of December 31.
- (v) Oil and gas reserves are valued by discounting estimated cash flows derived from projected production and revenues.
- (vi) Short-term investments are primarily securities issued by Canadian chartered banks and government agencies and recorded at cost which approximates market value.

(c) Income Determination

Dividend income is recorded as of the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

(d) Foreign Exchange

Investments denominated in foreign currencies are translated at current rates. Foreign dividends and interest income are translated at the rates prevailing when received.

(e) Change in Market Value

The change in market value has been segregated in the Consolidated Statement of Changes in Net Assets between the gains or losses from the sale of investments during the year and the unrealized appreciation (depreciation) in the value of investments which is the balance of the change in market value of investments for the year.

(f) Contributions

Contributions from employees are recorded in the period in which the Company makes payroll deductions. The contributions from the Company as determined by the latest actuarial valuations are recorded using the accrual method.

(g) Transfers

Transfers to/from other funds are accounted for in the period in which the value of the transfers can be reasonably estimated.

3. FUNDING POLICY

In respect of the CN Plans, the contributions by the Company are determined in accordance with the requirements of the Pension Benefits Standards Act 1985 and regulations thereunder and are based on the accrued benefit actuarial cost method, prorated on service, using a projection of salary (also referred to as the projected benefit method prorated on years of service). Consistent with the regulations and in addition to the current service contribution, the Company is making quarterly special payments to liquidate the unfunded actuarial liability by 2006. Also, in the case of the CN 1935 Pension Plan, the Company makes contributions as determined by the rules of the plan.

The latest actuarial valuations of the CN Plans were prepared by William M. Mercer Limitée as at December 31, 1990 and were submitted to the Superintendent of Financial Institutions and to Revenue Canada. In these actuarial valuations, the principal assumptions adopted by the Plans' actuary are members' mortality, disability, retirement, termination of employment, merit and periodic increases in earnings, as well as a long-term rate of return of 7.5% per annum on investments. Future increases in members' earnings have been projected using economic assumptions consistent with this long-term rate of return.

4. TRANSFERS

In 1991, the accounts include a provision for the amounts to be remitted to/from other funds to cover transfers of members of CN Plans to other pension plans and transfers of members of other plans to the CN Plans.

5. CONSOLIDATED ACTUARIAL PENSION OBLIGATION AND ASSET VALUE

The actuarial valuations as at December 31, 1990, revealed a consolidated actuarial liability of \$7.3 billion and a consolidated actuarial asset value of \$6.8 billion. The results of these valuations were then used to estimate the corresponding figures as at December 31, 1991 which approximate \$7.4 billion and \$7.0 billion respectively as at that date. The principal components of the change in the pension obligations are the interest accrued on benefits (\$5 billion in 1991 and 1990), benefits paid (\$5 billion in 1991 and 1990), benefits accrued during the year (\$1 billion in 1991 and 1990) and various other adjustments (nil in 1991 and \$1 billion in 1990). The consolidated actuarial asset value is based on a market related method which recognizes realized and unrealized gains or losses over a period of 5 years using the straight line method.

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